CONSOLIDATED FINANCIAL STATEMENTS

Taconic Capital Partners 1.5 L.P. and Subsidiary
Year Ended December 31, 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Financial Statements

Year Ended December 31, 2011

Contents

Ernst & Young LLP
5 Times Square
New York, New York 10036-6530
Tel: +1 212 773 3000
www.ey.com

Report of Independent Auditors

To the General Partner of
Taconic Capital Partners 1.5 L.P. and Subsidiary

We have audited the accompanying consolidated statement of financial condition of Taconic Capital Partners 1.5 L.P. and Subsidiary (the "Partnership"), including the consolidated condensed schedule of investments, as of December 31, 2011, and the related consolidated statements of operations, changes in partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taconic Capital Partners 1.5 L.P. and Subsidiary at December 31, 2011, and the results of their operations, the changes in their partners' capital and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 24, 2012

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Statement of Financial Condition

December 31, 2011

Assets		
Cash and cash equivalents	$	63,901,162
Investments in securities, at fair value (Cost $665,548,697)		635,450,660
Derivative financial instruments, at fair value (Net cost $8,573,721)		25,233,327
Due from brokers and counterparties		49,174,476
Interest and dividends receivable		2,902,753
Due from affiliate		13,494,032
Other assets		166,503
Total assets	$	790,322,913
Liabilities and partners' capital		
Liabilities:		
Securities sold, not yet purchased, at fair value (Proceeds $80,416,868)	$	83,390,145
Derivative financial instruments, at fair value (Net proceeds $20,967)		14,985,978
Due to brokers and counterparties		202,589,796
Interest and dividends payable		724,416
Management fee payable		496,096
Due to affiliate		13,931,175
Capital contributions received in advance		1,385,632
Capital withdrawals payable		29,961,880
Accrued expenses and other liabilities		598,946
Total liabilities		348,064,064
Partners' capital		442,258,849
Total liabilities and partners' capital	$	790,322,913

The accompanying notes are an integral part of this statement.

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments

December 31, 2011

Description		Fair Value	Percentage of Partners' Capital
Investments in Securities			
Asset Backed Securities			
North America			
Commercial Mortgage Backed Securities	$	4,667,660	1.06%
Other Asset Backed Securities		4,354,289	0.98%
Residential Asset Backed Securities		11,805,602	2.67%
Total North America (Cost $25,119,107)		20,827,551	4.71%
Total Asset Backed Securities (Cost $25,119,107)		**20,827,551**	**4.71%**
Bank Debt			
Australia			
Consumer, Non-cyclical		450,434	0.10%
Financial		39,052	0.01%
Total Australia (Cost $516,532)		489,486	0.11%
Europe			
Financial		57,468	0.01%
Total Europe (Cost $83,294)		57,468	0.01%
North America			
Basic Materials		726,300	0.17%
Communications			
Vodafone Americas Finance 2 Inc., with interest rates of LIBOR + 6.25% and + 6.875%, maturity dates of 8/19/2013 and 7/11/2016 and principal of $26,001,638		25,941,642	5.87%
Other		8,468,536	1.91%
Total Communications		34,410,178	7.78%
Consumer, Cyclical		5,565,366	1.26%
Consumer, Non-cyclical		4,408,442	1.00%
Energy		10,000,000	2.26%
Financial		16,637,043	3.76%

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Investments in Securities (continued)		
Bank Debt (continued)		
North America (continued)		
Technology		
Attachmate Corporation, with interest rates of LIBOR + 5% and + 8%, maturity dates of 4/27/2017 and 10/17/2017 and principal of $24,463,112	$ 23,978,933	5.42%
Total Technology	23,978,933	5.42%
Utilities		
Texas Competitive Electric Holdings Company LLC, with an interest rate of LIBOR + 4.5%, maturity date of 10/10/2017 and principal of $39,742,343	25,245,839	5.71%
Other	48,300	0.01%
Total Utilities	25,294,139	5.72%
Total North America (Cost $129,074,250)	121,020,401	27.37%
Total Bank Debt (Cost $129,674,076)	**121,567,355**	**27.49%**
Common Stocks		
Asia		
Industrial	497,812	0.11%
Total Asia (Cost $458,831)	497,812	0.11%
Australia		
Financial	10,275,455	2.32%
Total Australia (Cost $9,912,731)	10,275,455	2.32%
Europe		
Consumer, Non-cyclical	17,489,695	3.96%
Utilities	723,368	0.16%
Total Europe (Cost $18,943,790)	18,213,063	4.12%

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	**Fair Value**	**Percentage of Partners' Capital**
Investments in Securities (continued)		
Common Stocks (continued)		
North America		
Communications		
Motorola Mobility Holdings Inc. (644,245 shares)	$ 24,996,706	5.65%
Total Communications	24,996,706	5.65%
Consumer, Cyclical	3,910,438	0.88%
Consumer, Non-cyclical	13,549,359	3.06%
Energy	3,656,199	0.83%
Financial	14,687,711	3.32%
Industrial		
Goodrich Corporation (327,004 shares)	40,450,395	9.15%
Total Industrial	40,450,395	9.15%
Technology		
Netlogic Microsystems Inc. (512,297 shares)	25,394,562	5.74%
Total Technology	25,394,562	5.74%
Utilities		
Constellation Energy Group Inc. (972,651 shares)	38,585,065	8.73%
Total Utilities	38,585,065	8.73%
Total North America (Cost $157,902,570)	165,230,435	37.36%
Total Common Stocks (Cost $187,217,922)	**194,216,765**	**43.91%**
Convertible Debt		
Europe		
Consumer, Cyclical	1,042,551	0.23%
Financial	6,673,266	1.51%
Total Europe (Cost $7,862,607)	7,715,817	1.74%

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Investments in Securities (continued)		
Convertible Debt (continued)		
North America		
Basic Materials	$ 104,379	0.02%
Communications		
Nortel Networks Corporation, with an interest rate of 2.125%, maturity date of 4/15/2014 and principal of $7,806,000	7,610,850	1.72%
Total Communications	7,610,850	1.72%
Consumer, Cyclical	21,638	0.01%
Consumer, Non-cyclical	41,469	0.01%
Energy	1,152,985	0.26%
Financial		
Lehman Brothers Holdings Inc., with an interest rate of 0%, maturity dates ranging from 9/26/2008 to1/26/2017 and principal of $25,647,030	6,622,793	1.50%
Washington Mutual, Inc., with interest rate of 0%, maturity date of 1/15/2010 and principal of $5,344,183	5,417,666	1.22%
Other	918,000	0.21%
Total Financial	12,958,459	2.93%
Total North America (Cost $19,601,194)	21,889,780	4.95%
Total Convertible Debt (Cost $27,463,801)	**29,605,597**	**6.69%**
Convertible Preferred Stock		
North America		
Financial		
Lehman Brother Holdings Inc. (210,095 shares)	1,850,912	0.42%
Total Financial	1,850,912	0.42%
Total North America (Cost $1,786,521)	1,850,912	0.42%
Total Convertible Preferred Stock (Cost $1,786,521)	**1,850,912**	**0.42%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	**Fair Value**	**Percentage of Partners' Capital**
Investments in Securities (continued)		
Corporate Debt		
Europe		
Basic Materials	$ 4,089,293	0.92%
Communications	6,334,425	1.43%
Consumer, Cyclical	1,365,282	0.31%
Financial	15,721,200	3.56%
Total Europe (Cost $31,706,006)	27,510,200	6.22%
North America		
Basic Materials	7,867,477	1.78%
Communications		
Nortel Networks Corporation, with interest rates of 8.5075% and 10.75%, maturity dates of 7/15/2011 and 7/15/2016 and principal of $33,038,895	34,230,432	7.74%
Total Communications	34,230,432	7.74%
Consumer, Cyclical	8,349,138	1.89%
Consumer, Non-cyclical		
HCA, Inc., with interest rates ranging from 5.75% to 8.5%, maturity dates ranging from 7/15/2013 to 11/15/2095 and principal of $21,512,951	22,734,752	5.14%
Other	4,801	0.00%
Total Consumer, Non-cyclical	22,739,553	5.14%

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	**Fair Value**	**Percentage of Partners' Capital**
Investments in Securities (continued)		
Corporate Debt (continued)		
North America (continued)		
Financial		
Lehman Brothers Holdings Inc., with interest rates ranging from 0% to 8.5%, maturity dates ranging from 9/15/2008 to 12/19/2036 and principal of $92,216,591	$ 22,997,929	5.20%
Washington Mutual, Inc., with interest rates ranging from 0% to 5.5%, maturity dates ranging from 1/15/2009 to 8/24/2049 and principal of $24,205,755	25,377,128	5.74%
Other	25,224,910	5.70%
Total Financial	73,599,967	16.64%
Utilities	36,957	0.01%
Total North America (Cost $142,344,720)	146,823,524	33.20%
Total Corporate Debt (Cost $174,050,726)	**174,333,724**	**39.42%**
Exchange Traded Bond Futures Call Options		
Europe	(29,464)	(0.01%)
Total Exchange Traded Bond Futures Call Options	**(29,464)**	**(0.01%)**
Exchange Traded Commodity Put Options		
Europe	140,125	0.03%
Total Exchange Traded Commodity Put Options (Cost $237,500)	**140,125**	**0.03%**
Exchange Traded Equity Call Options		
North America		
Goodrich Corporation, 948 contracts, with a strike of $110 and an expiration date of 5/18/2012	1,493,100	0.34%
Other	4,118	0.00%
Total Exchange Traded Equity Call Options (Cost $1,585,136)	**1,497,218**	**0.34%**
Exchange Traded Equity Put Options		
North America	40,800	0.01%
Total Exchange Traded Equity Put Options (Cost $176,831)	**40,800**	**0.01%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Investments in Securities (continued)		
Exchange Traded Index Put Options		
Asia	$ 55,538	0.01%
Europe	14,761,441	3.34%
Total Exchange Traded Index Put Options (Cost $11,434,158)	**14,816,979**	**3.35%**
Government Debt		
Europe		
Government		
Bundesschatzanweisungen, with an interest rate of 0.75%, maturity date of 9/14/2012 and principal of €18,945,000	24,654,074	5.57%
Other	3,516,392	0.80%
Total Government	28,170,466	6.37%
Total Europe (Cost $30,568,995)	28,170,466	6.37%
North America		
Municipal Bond	2,508,450	0.57%
Total North America (Cost $2,060,158)	2,508,450	0.57%
Total Government Debt (Cost $32,629,153)	**30,678,916**	**6.94%**
Preferred Stock		
Europe		
Financial	366,819	0.08%
Total Europe (Cost $413,055)	366,819	0.08%
North America		
Consumer, Cyclical	35,420	0.01%
Financial	3,468,443	0.78%
Total North America (Cost $4,286,488)	3,503,863	0.79%
Total Preferred Stock (Cost $4,699,543)	**3,870,682**	**0.87%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Investments in Securities (continued)		
Private Placements		
Australia		
Consumer, Non-cyclical	$ 116,135	0.03%
Financial	337,186	0.07%
Total Australia (Cost $447,849)	453,321	0.10%
Europe		
Financial	2,666,801	0.60%
Total Europe (Cost $6,605,464)	2,666,801	0.60%
Latin America		
Financial	4,122,230	0.93%
Total Latin America (Cost $25,139,521)	4,122,230	0.93%
North America		
Financial	9,834,180	2.23%
Total North America (Cost $10,673,699)	9,834,180	2.23%
Total Private Placements (Cost $42,866,533)	**17,076,532**	**3.86%**
Trade Claims		
Europe		
Financial	19,646,926	4.44%
Total Europe (Cost $21,189,446)	19,646,926	4.44%
North America		
Consumer, Cyclical	1,034	0.00%
Financial	4,616,912	1.05%
Total North America (Cost $3,873,655)	4,617,946	1.05%
Total Trade Claims (Cost $25,063,101)	**24,264,872**	**5.49%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Investments in Securities (continued)		
Warrants		
Europe		
Consumer, Non-cyclical	$ 281,016	0.07%
Total Europe (Cost $569,986)	281,016	0.07%
North America		
Consumer, Cyclical	411,080	0.09%
Total North America (Cost $974,603)	411,080	0.09%
Total Warrants (Cost $1,544,589)	**692,096**	**0.16%**
Total Investments in Securities (Cost $665,548,697)	**$ 635,450,660**	**143.68%**
Securities Sold, Not Yet Purchased		
Common Stocks		
North America		
Consumer, Non-cyclical	$ 10,817,892	2.45%
Energy	2,912,163	0.66%
Utilities		
Exelon Corporation (904,565 shares)	39,230,984	8.87%
Total Utilities	39,230,984	8.87%
Total North America (Proceeds $50,781,226)	52,961,039	11.98%
Total Common Stocks (Proceeds $50,781,226)	**52,961,039**	**11.98%**
Corporate Debt		
Europe		
Consumer, Non-cyclical	1,724,993	0.39%
Total Europe (Proceeds $1,744,245)	1,724,993	0.39%
Total Corporate Debt (Proceeds $1,744,245)	**1,724,993**	**0.39%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Securities Sold, Not Yet Purchased (continued)		
Exchange Traded Equity Call Options		
North America	$ 1,129,696	0.25%
Total Exchange Traded Equity Call Options (Proceeds $1,093,349)	**1,129,696**	**0.25%**
Exchange Traded Equity Put Options		
North America	6,016	0.00%
Total Exchange Traded Equity Put Options (Proceeds $13,389)	**6,016**	**0.00%**
Exchange Traded Funds		
North America		
Basic Materials	200,207	0.05%
Financial	939,023	0.21%
Total North America (Proceeds $1,112,001)	1,139,230	0.26%
Total Exchange Traded Funds (Proceeds $1,112,001)	**1,139,230**	**0.26%**
Government Debt		
Europe		
Government	11,933,856	2.70%
Total Europe (Proceeds $12,160,614)	11,933,856	2.70%
North America		
Government	14,495,315	3.28%
Total North America (Proceeds $13,512,044)	14,495,315	3.28%
Total Government Debt (Proceeds $25,672,658)	**26,429,171**	**5.98%**
Total Securities Sold, Not Yet Purchased (Proceeds $80,416,868)	**$ 83,390,145**	**18.86%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	**Fair Value**	**Percentage of Partners' Capital**
Derivative Financial Instruments		
Credit Default Swaps – Buy Protection		
Asia		
Basic Materials	$ 58,934	0.01%
Government	862,439	0.20%
Total Asia	921,373	0.21%
Australia		
Financial	365,168	0.08%
Government	(86,870)	(0.02%)
Total Australia	278,298	0.06%
Europe		
Basic Materials	202,398	0.05%
Consumer, Cyclical	42,547	0.01%
Financial	3,231,487	0.73%
Index	437,327	0.10%
Industrial	3,244	0.00%
Utilities	(115,578)	(0.03%)
Total Europe	3,801,425	0.86%
Latin America		
Government	(349,271)	(0.08%)
Total Latin America	(349,271)	(0.08%)
North America		
Consumer, Cyclical	2,712,364	0.62%
Consumer, Non-cyclical	95,631	0.02%
Energy	(29,166)	(0.01%)
Financial	206,686	0.05%
Government	(133,901)	(0.03%)
Index	4,387,821	0.99%
Industrial	12,620	0.00%
Total North America	7,252,055	1.64%
Total Credit Default Swaps – Buy Protection (Net upfront fees paid $7,374,053)	**11,903,880**	**2.69%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Derivative Financial Instruments (continued)		
Credit Default Swaps – Sell Protection		
Australia		
Financial	$ (258,799)	(0.06%)
Total Australia	(258,799)	(0.06%)
Europe		
Communications	(110,059)	(0.03%)
Consumer, Cyclical	(433,699)	(0.10%)
Financial	(2,939,645)	(0.66%)
Total Europe	(3,483,403)	(0.79%)
Latin America		
Government	(141,909)	(0.03%)
Total Latin America	(141,909)	(0.03%)
North America		
Communications	(102,914)	(0.02%)
Consumer, Cyclical	197,797	0.04%
Consumer, Non-cyclical	(198,853)	(0.04%)
Financial	(438,620)	(0.10%)
Index	(1,003,887)	(0.23%)
Total North America	(1,546,477)	(0.35%)
Total Credit Default Swaps – Sell Protection (Net upfront fees received $2,662,613)	**(5,430,588)**	**(1.23%)**
Equity Swaps – Long Exposure		
Australia		
Financial	5,501	0.00%
Total Australia	5,501	0.00%

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Derivative Financial Instruments (continued)		
Equity Swaps – Long Exposure (continued)		
Europe		
Industrial	$ 58,866	0.01%
Total Europe	58,866	0.01%
North America		
Energy	92,999	0.02%
Total North America	92,999	0.02%
Total Equity Swaps – Long Exposure	**157,366**	**0.03%**
Equity Swaps – Short Exposure		
North America		
Energy	(124,157)	(0.03%)
Total North America	(124,157)	(0.03%)
Total Equity Swaps – Short Exposure	**(124,157)**	**(0.03%)**
Foreign Currency Forwards – Long Exposure		
Latin America	61,468	0.01%
Total Foreign Currency Forwards – Long Exposure	**61,468**	**0.01%**
Foreign Currency Options – Call – Long Exposure		
Australia	21,095	0.01%
North America	59,424	0.01%
Total Foreign Currency Options – Call – Long Exposure (Cost $736,994)	**80,519**	**0.02%**
Foreign Currency Options – Call – Short Exposure		
North America	(14,816)	0.00%
Total Foreign Currency Options – Call – Short Exposure (Proceeds $194,117)	**(14,816)**	**0.00%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description	Fair Value	Percentage of Partners' Capital
Derivative Financial Instruments (continued)		
Foreign Currency Options – Put – Long Exposure		
Australia	$ 31,643	0.01%
North America	1,878,063	0.42%
Total Foreign Currency Options – Put – Long Exposure (Cost $2,122,017)	**1,909,706**	**0.43%**
European Exchange Traded Futures – Long Exposure	**865,667**	**0.20%**
European Exchange Traded Futures – Short Exposure	**203,462**	**0.05%**
U.S. Exchange Traded Futures – Short Exposure	**(6,351)**	**0.00%**
Interest Rate Swaps – Long Exposure (Cost $404,462)	**869,869**	**0.20%**
OTC Call Options – Long Exposure		
Europe		
Index	382,581	0.09%
Total Europe (Cost $771,595)	382,581	0.09%
Total OTC Call Options – Long Exposure (Cost $771,595)	**382,581**	**0.09%**
OTC Put Options – Long Exposure		
Europe		
Financial	3,073	0.00%
Total Europe (Cost $363)	3,073	0.00%
Total OTC Put Options – Long Exposure (Cost $363)	**3,073**	**0.00%**

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Condensed Schedule of Investments (continued)

December 31, 2011

Description		Fair Value	Percentage of Partners' Capital
Derivative Financial Instruments (continued)			
Total Return Swaps – Bank Debt – Long Exposure			
North America			
Communications	$	10,341	0.00%
Consumer, Cyclical		(15,854)	0.00%
Consumer, Non-cyclical			
HCA, Inc., with an interest rate of LIBOR + 2.25%, maturity date of 11/18/2013 and principal of $1,814,337		57,117	0.01%
Total Consumer, Non-cyclical		57,117	0.01%
Utilities		(665,934)	(0.15%)
North America		(614,330)	(0.14%)
Total Total Return Swaps – Bank Debt – Long Exposure		**(614,330)**	**(0.14%)**
Total Derivative Financial Instruments, net (Cost $11,409,484, Proceeds $2,856,730)	**$**	**10,247,349**	**2.32%**

The accompanying notes are an integral part of this statement.

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Statement of Operations

Year Ended December 31, 2011

Investment income	
Interest income (net of foreign withholding taxes of $39,223)	$ 31,086,279
Dividend income (net of foreign withholding taxes of $91,377)	2,909,061
Total investment income	33,995,340
Expenses	
Interest expense	6,530,029
Dividend expense	2,502,637
Management fee	7,166,668
Professional fees and other expenses	1,652,625
Total expenses	17,851,959
Net investment income	16,143,381
Net realized and change in unrealized loss on investments, foreign exchange transactions and derivatives	
Net realized loss on investments, foreign exchange transactions and derivatives	(10,806,896)
Net change in unrealized depreciation on investments, foreign exchange transactions and derivatives	(26,143,814)
Net realized and change in unrealized loss on investments, foreign exchange transactions and derivatives	(36,950,710)
Net loss	$ (20,807,329)

The accompanying notes are an integral part of this statement.

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Statement of Changes in Partners' Capital

Year Ended December 31, 2011

	General Partner	Special Limited Partners	Limited Partners	Total
Partners' capital, beginning of year	$ 6,773,734	$ 69,950,749	$ 519,098,114	$ 595,822,597
Capital contributions	9,994	12,685,756	47,860,766	60,556,516
Capital withdrawals	(691,450)	(17,688,382)	(174,933,103)	(193,312,935)
Allocation of net loss:				
Pro rata allocation to all partners	(263,094)	(1,986,174)	(18,558,061)	(20,807,329)
Performance allocation	487,288	–	(487,288)	–
Net income (loss)	224,194	(1,986,174)	(19,045,349)	(20,807,329)
Partners' capital, end of year	$ 6,316,472	$ 62,961,949	$ 372,980,428	$ 442,258,849

The accompanying notes are an integral part of this statement.

Taconic Capital Partners 1.5 L.P. and Subsidiary

Consolidated Statement of Cash Flows

Year Ended December 31, 2011

Cash flows from operating activities	
Net loss	$ (20,807,329)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:	
Net realized loss on securities transactions	144,418
Net change in unrealized depreciation on investments in securities	40,561,716
Net amortization/ accretion of premiums/ discounts on debt securities	(8,376,456)
Purchases of investments in securities	(1,607,665,186)
Purchases of investments to cover securities sold, not yet purchased	(494,345,876)
Proceeds from dispositions of investments in securities	1,637,415,249
Proceeds from securities sold, not yet purchased	431,827,179
Net change in operating assets and liabilities:	
Increase in derivative financial instruments – asset	(11,053,349)
Decrease in due from brokers and counterparties	77,257,523
Decrease in interest and dividends receivable	1,954,617
Decrease in due from affiliate	6,390,613
Increase in other assets	(32,613)
Increase in derivative financial instruments – liability	4,645,517
Decrease in due to brokers and counterparties	(7,155,566)
Decrease in interest and dividends payable	(404,080)
Decrease in management fee payable	(172,194)
Decrease in due to affiliate	(53,080,815)
Increase in accrued expenses and other liabilities	53,031
Net cash and cash equivalents used in operating activities	(2,843,601)
Cash flows from financing activities	
Contributions	39,941,706
Withdrawals	(171,303,820)
Net cash and cash equivalents used in financing activities	(131,362,114)
Net change in cash and cash equivalents	(134,205,715)
Cash equivalents, beginning of year	198,106,877
Cash and cash equivalents, end of year	$ 63,901,162
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 6,839,881
Supplemental disclosure of non-cash financing activities	
Contributions due to change in beneficial ownership	$ 14,963,626
Withdrawals due to change in beneficial ownership	$ 14,963,626

The accompanying notes are an integral part of this statement.

Taconic Capital Partners 1.5 L.P. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2011

1. Organization and Business

Taconic Capital Partners 1.5 L.P. ("TCP1.5"), a Delaware limited partnership, was formed on August 6, 2003 and commenced operations on September 1, 2003. The general partner of TCP1.5 is Taconic Capital Partners LLC (the "General Partner"), a Delaware limited liability company. The investment advisor of TCP1.5 is Taconic Capital Advisors LP (the "Investment Advisor"), a Delaware limited partnership. The United Kingdom ("U.K.") investment advisor of TCP1.5 is Taconic Capital Advisors U.K. LLP, an English limited liability partnership regulated by the U.K. Financial Services Authority (the "U.K. Investment Advisor", together with Taconic Capital Advisors LP, the "Investment Advisors"). The Investment Advisors are registered with the Securities and Exchange Commission as registered investment advisors under the Investment Advisers Act of 1940. The U.K. Investment Advisor has been appointed to act alongside and in conjunction with the Investment Advisor, subject to the supervision of the General Partner and the Investment Advisor. TCP1.5 was organized primarily to engage in event-driven investing. TCP1.5 is a "qualified purchaser" fund in accordance with Section 3(c) (7) of the Investment Company Act of 1940.

TCP1.5 will terminate on December 31, 2025, or earlier under certain circumstances, as described in the Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement").

The consolidated financial statements include TCP1.5 and its wholly owned subsidiary, TCA Event Holding S.à.r.l. (collectively the "Partnership"), which is an investment company that was incorporated as an exempted company in Luxembourg. This subsidiary company was formed to hold investments for the purpose of achieving certain regulatory or administrative efficiencies.

The Partnership has entered into an administration agreement with International Fund Services (Ireland) Limited, an Irish company (the "Administrator"). Under the terms of the agreement, the Administrator performs fund accounting and general administrative tasks for the Partnership.

2. Summary of Significant Accounting Principles

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and are stated in U.S. dollars. The accounts are maintained on the accrual basis.

2. Summary of Significant Accounting Principles (continued)

Consolidation

The Partnership consolidates all subsidiaries over which it exercises management control. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing these consolidated financial statements are reasonable; however, actual results could differ from these estimates.

Cash and Cash Equivalents

The Partnership treats short-term investments with a maturity of less than three months from the consolidated statement of financial condition date or at the time of purchase as cash equivalents. Cash equivalents are carried at cost plus accrued interest, which approximates fair value. At December 31, 2011, the Partnership maintained all of its cash and cash equivalents in accounts with two U.S. financial institutions. Cash equivalents are invested directly and indirectly in short-term U.S. government securities and are considered Level 1 financial assets.

Fair Value of Financial Instruments

The fair value of the Partnership's assets and liabilities which qualify as financial instruments approximates the carrying amounts presented in the consolidated statement of financial condition. All of the Partnership's investments in securities, securities sold, not yet purchased and derivative financial instruments are measured at fair value as described below.

Securities listed on a securities exchange are valued at their closing sales prices on the date of determination on the primary exchange on which such securities shall have traded on such date (or, if on the date of determination a primary securities exchange on which such securities are listed is not open for trading, on the last prior date on which such securities exchange was open). If no sales of securities occurred on either of the foregoing dates, or if the closing trade price is

2. Summary of Significant Accounting Principles (continued)

Fair Value of Financial Instruments (continued)

not deemed to be reflective of fair value, such securities are valued at a price equal to the mean between the last "bid" and last "ask" prices on the primary securities exchange on which such securities are traded, on the date of determination.

Investments that are traded in the over the counter ("OTC") market for which the underlying instruments trade on an exchange are valued based on the market value of the underlying instrument and adjusted for other factors, including counterparty non-performance risk, as appropriate. OTC investments for which there are no underlyings or for which the underlying instruments do not trade on an exchange (including fixed income and other security types) are valued by the Investment Advisors at prices they deem in good faith to be fair value. As a basis for determining the fair value of such investments or investments that are thinly traded, the Partnership generally obtains "bid" and "ask" prices or other indications of trading levels from third-party dealers or independent pricing services. For certain investments, the Partnership obtains data from third-party dealers (e.g., spreads) and utilizes pricing models that consider the time value of money, volatility and the current market and contractual prices of the underlying financial instruments.

Investments for which market quotations or data, as referred to above, are not readily available and investments for which market quotations are not deemed by the Investment Advisors to be indicative of fair value are valued by the Investment Advisors, under authority of the General Partner, at prices they deem in good faith to be fair value. In determining fair value, the Investment Advisors consider all relevant factors, including but not limited to the fundamental analytical data relating to the investment and the economic outlook and the condition of the industry in which the issuer participates.

Although the Investment Advisors use their best judgment in estimating the fair value of investments, there are inherent limitations in any estimation technique. Future events may affect the estimates of fair value and the effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the consolidated financial statements. At December 31, 2011, the total value of securities fair valued by the Investment Advisor was approximately $5.3 million.

2. Summary of Significant Accounting Principles (continued)

Investment Transactions

Purchases and sales of securities and derivatives are recorded on a trade-date basis. Realized gains and losses on such transactions are based on the specific identification method. Interest income and expense are recorded on an accrual basis and dividends are recorded on the ex-dividend date, net of foreign withholding taxes. Premiums and discounts on debt securities and upfront fees on credit default swaps are amortized and accreted.

Currency Translation

The functional currency of the Partnership is the U.S. dollar. Assets and liabilities denominated in currencies other than U.S. dollars are translated at closing rates of exchange at December 31, 2011, with the resulting net unrealized gains and losses reflected in the consolidated statement of operations. Transactions which occur during the year are translated at the rates of exchange prevailing on the respective dates of the transactions. Net realized loss on investments includes the effects of currency movements between trade and settlement dates on securities and derivatives transactions. The Partnership does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to changes in the values of the investments. Such fluctuations are included in the net realized and unrealized gain/loss on investments, foreign exchange transactions and derivatives in the consolidated statement of operations.

Derivative Contracts

The Partnership recognizes all derivatives as either assets or liabilities in the consolidated statement of financial condition and measures them at fair value. The Partnership transacts in a variety of derivative instruments including futures, forwards, swaps and options primarily for trading purposes. These derivatives are either exchange-traded or OTC contracts. Exchange-traded derivatives are standard contracts traded on a regulated exchange. OTC contracts are private contracts negotiated with counterparties. Changes in the value of derivatives are reflected in net change in unrealized appreciation/depreciation on investments, foreign exchange transactions and derivatives in the consolidated statement of operations. Options are included as securities or derivative financial instruments on the consolidated condensed schedule of investments and the consolidated statement of financial condition depending on whether the option contract is exchange traded or OTC, respectively.

2. Summary of Significant Accounting Principles (continued)

Consolidated Condensed Schedule of Investments

The industry and geographic classifications of the investments reflected in the accompanying consolidated condensed schedule of investments are based on the Investment Advisors' belief as to the most accurate descriptions as of December 31, 2011.

Income Taxes

Income taxes have not been accrued for as the partners are individually liable for reporting their share of the profits or losses on their individual tax returns.

The Partnership's management evaluates tax positions taken or expected to be taken in the course of preparing the Partnership's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet a more-likely-than-not threshold would be recorded as a tax expense. As of and during the year ended December 31, 2011, the Partnership did not have any liabilities or expense for any unrecognized tax positions. The Partnership recognizes interest and penalties, if any, related to unrecognized tax positions as income tax expense in the consolidated statement of operations. During the year, the Partnership did not incur any interest or penalties. Each of the tax years since inception remains subject to examination by the taxing authorities.

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011- 04, which amends ASC 820, *Fair Value Measurements and Disclosures* and requires additional disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy. These disclosures are effective for periods beginning after December 15, 2011. Management is evaluating the new requirement and the potential impact to the Partnership upon implementation thereof.

2. Summary of Significant Accounting Principles (continued)

Recently Adopted Accounting Pronouncements (continued)

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11 requires that the reporting entity discloses both gross information and net information about both instruments and transactions eligible for offset in the consolidated statement of financial condition and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of IFRS. The disclosure is effective for reporting periods beginning on or after January 1, 2013. Management is evaluating the impact that the adoption of ASU No. 2011-11 will have on the Partnership's consolidated financial statements

New Issue Securities

The General Partner has determined that it may be in the best interest of the Partnership to benefit from the purchase of securities that are the subject of a "new issue", which is defined by the Financial Industry Regulatory Authority ("FINRA") as any initial public offering of equity securities ("New Issues"). Under the FINRA rules, only those partners who are eligible to participate and have elected to participate shall be allocated any gains or losses attributable to New Issues. Such securities are deemed by the General Partner to be New Issues until the first open market trade is executed in such securities, after which time they are no longer treated as New Issues. The Partnership also avails itself of the *de minimis* exemption of the Conduct Rules of FINRA, and allocates a portion of the New Issue gains and losses to restricted persons as defined by FINRA.

3. Assets and Liabilities Measured at Fair Value

The Partnership accounts for its investments at fair value in accordance with ASC 820, which is defined as the price that the Partnership would receive to sell an investment or pay to transfer a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment or liability. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs and the valuation techniques and inputs applied in valuing the Partnership's assets and liabilities which qualify as financial instruments, as more fully described in Note 2, are further summarized below:

> **Level 1** – Quoted prices (unadjusted) in active markets for identical assets and liabilities. Common stocks, exchange traded futures and options as well as government debt securities that are actively traded are categorized in Level 1 of the fair value hierarchy.
>
> **Level 2** – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, as well as data related to recent transactions in identical or similar assets and liabilities. Corporate debt, bank debt, and government debt securities, as well as derivatives, are generally categorized in Level 2 of the fair value hierarchy; however, in instances where prices, spreads or any significant inputs are unobservable, they are categorized in Level 3. The significant inputs for the debt positions are generally bid and ask prices provided by brokers as well as recently executed market transactions, and significant inputs for the derivatives are generally credit spreads, various interest rate curves, forward and spot rates, and current market or spot prices of the underlying.

3. Assets and Liabilities Measured at Fair Value (continued)

> **Level 3** – Unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Debt, including trade claims, and private placement positions priced using bid ask prices provided by third parties for the identical or similar instruments will be included in the Level 3 hierarchy if there is little or no market activity for the security.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurements in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Investment Advisors' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to that asset or liability. The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, how established the product is in the marketplace and other characteristics particular to the asset or liability.

Many of the Partnership's investments have bid and ask prices that can be observed in the marketplace. To the extent the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Investment Advisors in determining fair value is greatest for investments categorized as Level 3.

3. Assets and Liabilities Measured at Fair Value (continued)

The following table presents information about the Partnership's assets and liabilities measured at fair value as of December 31, 2011 and indicates the fair value hierarchy of the valuation techniques utilized by the Investment Advisors to determine such fair value:

	Level 1	Level 2	Level 3	Balance as of December 31, 2011
Financial Assets				
Asset Backed Securities				
Commercial Mortgage Backed Securities	$ –	$ 4,667,660	$ –	$ 4,667,660
Other Asset Backed Securities		4,239,988	114,301	4,354,289
Residential Asset Backed Securities		10,388,746	1,416,856	11,805,602
Total Asset Backed Securities	–	19,296,394	1,531,157	**20,827,551**
Bank Debt				
Basic Materials	–	726,300		**726,300**
Communications	–	34,410,178	–	**34,410,178**
Consumer, Cyclical	–	5,558,494	6,872	**5,565,366**
Consumer, Non-Cyclical	–	4,408,442	450,434	**4,858,876**
Energy	–	–	10,000,000	**10,000,000**
Financial	–	16,617,670	115,893	**16,733,563**
Technology	–	23,978,933	–	**23,978,933**
Utilities	–	25,245,839	48,300	**25,294,139**
Total Bank Debt	–	110,945,856	10,621,499	**121,567,355**
Common Stocks*	194,216,765	–		**194,216,765**
Convertible Debt				
Basic Materials	–	104,379		**104,379**
Communications	–	7,610,850	–	**7,610,850**
Consumer, Cyclical	–	1,042,551	21,638	**1,064,189**
Consumer, Non-Cyclical	–	41,469	–	**41,469**
Energy	–	1,152,985	–	**1,152,985**
Financial	–	19,248,811	382,914	**19,631,725**
Total Convertible Debt	–	29,201,045	404,552	**29,605,597**
Convertible Preferred Stock*	–	1,850,912	–	**1,850,912**
Corporate Debt				
Basic Materials	–	11,956,770		**11,956,770**
Communications	–	40,564,857	–	**40,564,857**
Consumer, Cyclical	–	9,545,524	168,896	**9,714,420**
Consumer, Non-Cyclical	–	22,734,752	4,801	**22,739,553**
Financial	–	82,508,915	6,812,252	**89,321,167**
Utilities	–		36,957	**36,957**
Total Corporate Debt	–	167,310,818	7,022,906	**174,333,724**

3. Assets and Liabilities Measured at Fair Value (continued)

	Level 1	Level 2	Level 3	Derivative Counterparty Netting**	Balance as of December 31, 2011
Financial Assets (continued)					
Exchange Traded Options*	$ 16,465,658	$ –	$ –	$ –	$ 16,465,658
Government Debt					
Government	3,245,595	24,924,871	–	–	28,170,466
Municipal Bond	–	2,508,450		–	2,508,450
Total Government Debt	3,245,595	27,433,321		–	30,678,916
Preferred Stock					
Consumer, Cyclical	–		35,420	–	35,420
Financial	3,835,262	–			3,835,262
Total Preferred Stock	3,835,262	–	35,420	–	3,870,682
Private Placements					
Consumer, Non-Cyclical	–	–	116,135	–	116,135
Financial		2,666,801	14,293,596	–	16,960,397
Total Private Placements		2,666,801	14,409,731	–	17,076,532
Trade Claims					
Consumer, Cyclical		–	1,034	–	1,034
Financial	–	18,953,260	5,310,578	–	24,263,838
Total Trade Claims		18,953,260	5,311,612	–	24,264,872
Warrants*	692,096	–	–	–	692,096
Derivative Financial Instruments					
Credit Default Swaps	–	41,933,330	–	–	41,933,330
Equity Swaps		262,767	–	–	262,767
Foreign Currency Forwards	–	61,468	–	–	61,468
Foreign Currency Options	–	5,160,997	–		5,160,997
Exchange Traded Futures	1,069,354	–	–	–	1,069,354
Interest Rate Swaps		2,007,930	–		2,007,930
OTC Options	–	984,896	3,073	–	987,969
Total Return Swaps	–	67,457	–	–	67,457
Derivative Counterparty Netting	–	–	–	(26,317,945)	(26,317,945)
Total Derivative Financial Instruments	1,069,354	50,478,845	3,073	(26,317,945)	25,233,327
Total Financial Assets	$ 219,524,730	$ 428,137,252	$ 39,339,950	$ (26,317,945)	$ 660,683,987

Taconic Capital Partners 1.5 L.P. and Subsidiary

Notes to Consolidated Financial Statements (continued)

3. Assets and Liabilities Measured at Fair Value (continued)

	Level 1	Level 2	Level 3	Derivative Counterparty Netting**	Balance as of December 31, 2011
Financial Liabilities					
Common Stocks*	$ 52,961,039	$ –	$ –	$	$ 52,961,039
Corporate Debt*	–	1,724,993	–	–	1,724,993
Exchange Traded Options*	1,135,712	–	–	–	1,135,712
Exchange Traded Funds*	1,139,230	–	–	–	1,139,230
Government Debt*	17,606,875	8,822,296	–	–	26,429,171
Derivative Financial Instruments					
Credit Default Swaps	–	35,460,038		–	35,460,038
Equity Swaps	–	229,558		–	229,558
Foreign Currency Options		3,185,588	–	–	3,185,588
Exchange Traded Futures	6,576		–	–	6,576
Interest Rate Swaps	–	1,138,061	–	–	1,138,061
OTC Options		602,315	–	–	602,315
Total Return Swaps	–	681,787	–	–	681,787
Derivative Counterparty Netting	–	–	–	(26,317,945)	(26,317,945)
Total Derivative Financial Instruments	6,576	41,297,347		(26,317,945)	14,985,978
Total Financial Liabilities	**$ 72,849,432**	**$ 51,844,636**	$ –	**$ (26,317,945)**	**$ 98,376,123**

* For more detailed information related to the industry classifications, refer to the consolidated condensed schedule of investments.

** Netting allowable under netting provisions of the Partnership's agreements that incorporate the right of "offset" (assets less liabilities) across derivative products with the same counterparty.

Approximately 91% of the Level 3 assets included above are assets which the Investment Advisors have obtained either "bid" and "ask" prices or other indications of trading levels and values from third-party dealers or independent pricing services for the asset.

3. Assets and Liabilities Measured at Fair Value (continued)

The following table presents additional information about the changes in those assets measured at fair value for which the Investment Advisors have utilized Level 3 inputs to determine fair value, for the year ended December 31, 2011:

	Beginning Balance as of January 1, 2011	Net Realized Gain/(Loss)	Net Change in Unrealized Appreciation/ Depreciation	Purchases	Sales	Transfers* In to Level 3	Transfers* Out of Level 3	Ending Balance as of December 31, 2011
Level 3 Assets								
Asset Backed Securities	$ 3,810,554	$ (76,289)	$ 113,276	$ 78,250	$ (3,255,833)	$ 2,021,907	$ (1,160,708)	$ 1,531,157
Bank Debt	935,662	329,696	(1,217,423)	17,854,359	(1,581,623)	56,738	(5,755,910)	10,621,499
Convertible Debt	711,800	(815,589)	1,225,356	6,824	(1,092,409)	368,570	–	404,552
Convertible Preferred Stock	17,400		(17,400)	–	–	–	-	–
Corporate Debt	1,761,954		167,829	1,244,474	–	4,964,960	(1,116,311)	7,022,906
Preferred Stock	–	-	(40,999)	76,419				35,420
Private Placements	27,421,873	699	(13,873,331)	5,271,227	(627,222)		(3,783,515)	14,409,731
OTC Options		–	(308)	363	–	3,018	-	3,073
Trade Claims	353,123	(228,350)	546,242	2,281,594	(452,916)	3,982,564	(1,170,645)	5,311,612
Total	$ 35,012,366	$ (789,833)	$ (13,096,758)	$ 26,813,510	$ (7,010,003)	$ 11,397,757	$ (12,987,089)	$ 39,339,950

* The Partnership assumes that any transfers between levels occur at the beginning of the quarter in which the transfer occurred.

Net change in unrealized depreciation relating to investments still held at December 31, 2011 is $(12,912,225) and is included in the net change in unrealized appreciation/depreciation on investments, foreign exchange transactions and derivatives in the consolidated statement of operations. Transfers into and out of Level 3 relate to the change in inputs available to value the associated securities and the observability of such inputs.

Additionally, during the year ended December 31, 2011, there was a transfer of approximately $1.5 million into Level 1 from Level 2 of the fair value hierarchy for financial assets. Such transfer relates to the change in inputs available to value the associated security. There were no transfers into Level 2 from Level 1.

4. Due From/To Brokers and Counterparties

Due from brokers and counterparties consists primarily of cash balances in U.S. dollar and foreign currencies on deposit with brokers and counterparties. Due to brokers and counterparties consists of payables for unsettled securities transactions of approximately $34.6 million and debit balances at the prime brokers. Cash at the clearing brokers that is related to securities sold,

4. Due From/To Brokers and Counterparties (continued)

not yet purchased, may be restricted until the securities are purchased. At December 31, 2011, the Partnership had margin debt balances that are collateralized by certain of the Partnership's securities. During the year ended December 31, 2011, margin interest was generally based on LIBOR Rates or Fed Funds Rates.

Generally, all investments in securities held at prime brokers, except for exchange traded options, are pledged to clearing brokers pursuant to prime broker margin account agreements, on terms that typically permit the clearing brokers to sell or repledge all or a portion of the securities to others. Cash collateral deposited on open derivative transactions is restricted until the related derivative transaction is closed.

5. Contributions and Withdrawals

The minimum initial contribution of a partner is $1,000,000; however, the General Partner may, in its sole discretion, permit initial contributions of a lesser amount.

Unless otherwise determined by the General Partner in its sole discretion, each new limited partner shall be admitted to the Partnership as of the first day of the month following the end of the month in which the General Partner received such person's capital contribution and an executed copy of the Partnership Agreement and such other documents as the General Partner may require. The General Partner is authorized, without the consent of the other partners, to permit any existing partner to make an additional capital contribution on the first day of any month or at such other times as the General Partner in its sole discretion shall determine. The terms and conditions under which any existing partner may increase its capital contributions shall be subject to all the provisions of the Partnership Agreement.

Limited partners generally have the right to withdraw all or a portion of their capital subject to the provisions of the Partnership Agreement governing the various "Anniversary Withdrawal Dates" and withdrawal fees, upon 60 days' written notice to the General Partner. The General Partner may make withdrawals from its account monthly, provided that after such withdrawal the General Partner's capital account must be at least $100,000. Withdrawal fees are either 2% or 5% subject to the provisions of the Partnership agreement, and are retained as an asset of the Partnership and are allocated to the remaining limited partners.

5. Contributions and Withdrawals (continued)

Capital invested in Side Pocket Investments may generally not be withdrawn until a liquidity event or deemed liquidity event, as determined by the General Partner, occurs. A Side Pocket Investment is generally an investment which is deemed to be illiquid and lacks a readily ascertainable market value, along with corresponding hedge positions, if any. As of December 31, 2011, approximately $3.1 million of partners' capital is invested in Side Pocket Investments and is subject to such withdrawal restrictions.

6. Allocations of Profits and Losses

Profits and losses are allocated to the partners' capital accounts in proportion to the ratio of the capital invested by each partner, as determined in accordance with the Partnership Agreement.

7. Related-Party Transactions

Participation Agreements

During the year ended December 31, 2011, the Partnership purchased and sold interests in derivatives, bank debt, trade claims and other private securities from/to Taconic Capital Partners L.P. ("TCP") and Taconic Master Fund 1.5 L.P. ("TMF1.5"), both affiliates, via participation agreements. Therefore, the Partnership, TCP and TMF1.5 (collectively, the "Participants") are jointly entitled to/liable for collateral pledged/posted in connection with such transactions. These agreements obligate/entitle the Partnership to make/receive payments to/from the other Participants if such agreements generate gains or losses. Refer to Note 9 for further details of open derivatives and related collateral movements.

At December 31, 2011, included in derivative financial instruments are derivatives acquired under such agreements with aggregate net unrealized gains of approximately $1.5 million. Derivatives sold under such agreements with net unrealized losses of approximately $13.6 million are attributable to derivatives transacted with OTC counterparties with net unrealized gains of the same amount. The corresponding unrealized gains and losses related to these derivatives are reflected gross in derivative financial instruments (as both an asset and liability), as appropriate, on the consolidated statement of financial condition and in Note 9; however, they are reflected net on the consolidated condensed schedule of investments. In connection with these participation agreements, at December 31, 2011, approximately $13.5 million was due from TMF1.5 and approximately $13.9 million was due to TMF1.5. Such amounts primarily relate to unsettled bank debt and trade claims and collateral posted in connection with participated derivative transactions and are included in due from affiliate and due to affiliate on the consolidated statement of financial condition.

7. Related-Party Transactions (continued)

Rebalancing

The General Partner and its affiliates have a general policy of aligning the portfolios of the Partnership, TCP (prior to its liquidation) and TMF1.5 and of operating the three funds in parallel, after taking into account the effect of the additional leverage of the Partnership and TMF1.5. In effecting this general policy, the General Partner may determine to sell certain portfolio assets of the Partnership to, or to purchase certain portfolio assets from, such affiliates to rebalance the portfolios. Such rebalancings are effected through market transactions or through private transactions at the Partnership's prime brokers where the Partnership and its affiliates transact such purchases or sales using the end-of-the-day market prices on the effective date of the rebalancing, as well as via participation agreements, as described above. Such transactions may generate realized gains and losses. The General Partner and its affiliates base pricing determinations on identical valuation procedures for each of such entities.

During the year ended December 31, 2011, the Partnership recognized net realized gains of approximately $1 million in connection with rebalancing sales, which is included in net realized loss on investments, foreign exchange transactions and derivatives on the consolidated statement of operations.

Special Limited Partners

The General Partner may designate certain limited partners who are current or former directors, officers, members, principals or employees of the General Partner, or any of its affiliates, as Special Limited Partners. Special Limited Partners are not charged management fees and are not subject to performance allocations.

Management Fees

In accordance with the Partnership Agreement, and as payment for administering the Partnership on behalf of the General Partner and assuming the administrative expenses, the Investment Advisor is entitled to receive from each limited partner, other than Special Limited Partners, monthly management fees at an annual rate of 1.5% of the value of the capital account of such limited partners calculated and payable on the last day of the month, except for capital which is invested in Side Pocket Investments, which is charged a management fee at an annual rate of 1%, based upon the lesser of the fair value of the Side Pocket Investment at the time such Side Pocket Investment was made and the value of the Side Pocket Investment at the relevant month-end. For the year ended December 31, 2011, the management fee was approximately $7.2 million.

7. Related-Party Transactions (continued)

Performance Allocation

At the end of each fiscal year, the Partnership allocates to the General Partner's capital account a performance allocation equal to 20% of the increase in the total net asset value of the limited partners' capital accounts, other than Special Limited Partners, during such fiscal year. The General Partner receives performance allocation with respect to any capital account if the Partnership has recouped prior losses with respect to such capital account. For the year ended December 31, 2011, the performance allocation was $487,000.

Other

During the year ended December 31, 2011, the Partnership invested in affiliated special purpose vehicles (the "SPVs"), which are companies organized for the purpose of achieving certain tax, regulatory or administrative efficiencies. The Partnership's pro rata interest in the underlying assets and liabilities of the SPVs and the related income and expense are reflected accordingly on the accompanying consolidated statement of financial condition, the underlying consolidated condensed schedule of investments and the consolidated statement of operations. The valuation policy with respect to investments held by the SPVs is the same as the Partnership's valuation policy as described in Note 2. The Partnership invests in the SPVs alongside other affiliated entities

8. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Partnership invests in the securities of non-U.S. companies which may involve risks and considerations not typically associated with investing in U.S. companies. These risks include favorable or unfavorable changes in currency exchange rates, repatriation of cash, imposition of taxes on dividends, interest payments, or capital gains, different securities transaction clearance and settlement practices and potential adverse political and economic developments.

In the normal course of its business, the Partnership uses various financial instruments as part of its strategy to meet its investment objectives, which may give rise to off-balance sheet risk. These financial instruments may include futures, forward settlement contracts, short option contracts and swap agreements. The Partnership also invests in various other derivatives as described in Note 9.

8. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk (continued)

Securities sold, not yet purchased, are a part of the normal activities of the Partnership and are subject to off-balance sheet market risk of loss should the Partnership be unable to acquire the securities for delivery to the lender at prices equal to or less than the value reflected in the consolidated statement of financial condition. With respect to written option contracts, the Partnership receives premiums at the outset and then bears the risk of unfavorable changes in the values of the underlying instruments.

The Partnership purchases and writes (sells/shorts) options. As a purchaser of an option, the Partnership pays a premium at the outset. The market risk associated with the purchase of a put or call option is limited to the premium originally paid. The premium received by the Partnership upon writing an option contract is recorded as a liability in the consolidated statement of financial condition and is thereafter valued at fair value. During the year, the Partnership wrote put and call options which may require it to purchase or sell certain investments if the written options are exercised against the Partnership by the option holder. In writing an option, the Partnership bears the market risk of an unfavorable change in the financial instrument underlying the written option. The exercise of an option written by the Partnership could result in the Partnership buying or selling a financial instrument at a price higher or lower than the current market value, respectively.

The Partnership also invests in bank loans and corporate and foreign government bonds. Until the bonds or bank loans are sold or mature, the Partnership is exposed to credit risk relating to whether the bond issuer or borrower will meet its obligations when they come due. Loan and other participation interests purchased by the Partnership such as bank loans may include revolving credit arrangements or other financing commitments obligating the Partnership to advance additional amounts on demand. At December 31, 2011, the Partnership had unfunded commitments of approximately $12.4 million relating to its bank loans.

During the year ended December 31, 2011, the Partnership cleared substantially all of its securities transactions through five major financial institutions pursuant to clearance agreements. Substantially all of the Partnership's security positions and a portion of its cash are either held as collateral by its clearing brokers and counterparties against various margin obligations and obligations created from securities sold, not yet purchased of the Partnership or deposited with such clearing brokers for safekeeping purposes. In the event the clearing brokers are unable to

8. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk (continued)

fulfill their obligations, the Partnership would be subject to credit risk. The Partnership may lend securities to qualified broker-dealers. The loans are secured at all times by cash and U.S. government securities in an amount at least equal to the fair value of the securities loaned, plus accrued interest and dividends, determined on a daily basis and adjusted accordingly. The Partnership bears the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower fail financially. The Partnership receives fees as compensation for lending its securities. At December 31, 2011, the Partnership had no securities on loan.

9. Derivative Contracts

The Partnership enters into transactions involving derivative financial instruments in connection with its investing activities and to manage credit risk, interest rate risk, foreign exchange rate risk, price risk and other market risks. These derivative instruments primarily include credit default swaps, equity swaps, over-the-counter options, total return swaps, interest rate swaps, foreign currency forwards and futures contracts. All derivative financial instruments are recognized on the consolidated statement of financial condition as derivative financial instruments at fair value. These instruments are subject to various risks similar to non-derivative instruments, including market, credit, liquidity and operational risks. The Partnership manages these risks on an aggregate basis along with the risks associated with its investing activities as part of its overall risk management policies.

Credit default swaps involve the exchange of a fixed rate premium for protection against the loss in value of an underlying security in the event of a defined credit event, such as payment default or bankruptcy. Interest rate swaps are agreements to exchange interest payments based upon notional amounts and subject the Partnership to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform. Option contracts involve rights to buy or sell financial instruments on a specified date of a period at a specified price.

These rights do not have to be exercised. Some option contracts such as interest rate floors, involve the exchange of cash based on changes in specified indices. Interest rate floors are contracts to hedge interest rate declines based on a notional amount. Interest rate floors subject the Partnership to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform. Forward rate contracts are commitments to buy or sell

9. Derivative Contracts (continued)

financial instruments at a future date at a specified price or yield. The Partnership primarily enters into foreign currency forwards for the purpose of investment and hedging a specific position with respect to either the currency in which the transaction is denominated or another currency as deemed appropriate.

The Partnership's credit risk relates to the potential inability of counterparties to perform their obligations under the terms of a contract. The Partnership's exposure to credit risk associated with counterparty non-performance is generally limited to the fair value of OTC derivatives reported as assets plus any collateral posted, less any collateral received. The notional amounts of derivatives do not represent the Partnership's maximum risk of loss due to counterparty non-performance. Exchange-traded contracts generally do not give rise to significant counterparty exposure because of margin requirements of the individual exchange and the clearing house.

The International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") governing the Partnership's derivative instruments contain provisions that, upon the occurrence of certain specified credit-risk-related events, could give the Partnership's trading counterparties the right to terminate all open derivative instruments subject to an ISDA Master Agreement. These events, which are defined by the ISDA Master Agreements, are primarily related to the capital balance of the Partnership and provide limits regarding the decline of the Partnership's capital balance over 1 month, 3 month and 12 month periods ("NAV triggers"). The Partnership's ISDA Master Agreements do not provide for credit-risk-related events which give the counterparty the right to demand additional collateral relating to any of its open derivative instruments.

As of December 31, 2011, the aggregate fair value of all derivative instruments executed by the Partnership pursuant to ISDA Master Agreements with NAV triggers that are in a net liability position is approximately $1.1 million, for which the Partnership has posted collateral of approximately $19 million, which includes initial margin and variation margin posted in the normal course of business. For the year ended December 31, 2011, no derivative agreements or derivative contracts were terminated as a result of non-compliance with ISDA provisions, including the violation of NAV triggers.

9. Derivative Contracts (continued)

The Partnership reduces its exposure to its counterparties by obtaining collateral as necessary, which can include cash or U.S. Treasury bills. The Partnership also seeks to reduce its counterparty credit risk by negotiating netting provisions into its agreements that incorporate the right of "offset" (assets less liabilities) across derivative products with the same counterparty.

With respect to OTC derivatives, including those entered into under participation agreements described in Note 7, the Partnership has posted approximately $28 million of cash collateral with its various counterparties and holds approximately $5.6 million of collateral from its various counterparties. At December 31, 2011, the collateral deposits are included in due from brokers and counterparties and due from affiliate and the collateral held is included in cash and cash equivalents in the consolidated statement of financial condition.

The Partnership views its OTC derivative credit exposure to be approximately $31.6 million at December 31, 2011, representing the net fair value of derivatives and their respective collateral deposits, which is net of approximately $5.6 million of counterparty collateral held by the Partnership. The Partnership believes that the ultimate settlement of the transactions outstanding at December 31, 2011 will not have a material effect on the Partnership's financial condition.

The fair values of the derivatives, all of which are not accounted for as hedging instruments under ASC 815, are presented on a gross basis in the below table, even when the derivatives are subject to master netting agreements and qualify for net presentation in accordance with GAAP. In addition, any cash collateral payables and receivables associated with the derivatives have not been added or netted against the fair value amounts. Realized losses of approximately $17 million on derivatives are included in the net realized loss on investments, foreign exchange transactions and derivatives in the consolidated statement of operations. The change in unrealized appreciation of approximately $10.4 million associated with derivatives is included in the net change in unrealized depreciation on investments, foreign exchange transactions and derivatives in the consolidated statement of operations. The notional amounts and number of contracts disclosed below for derivatives at December 31, 2011 is representative of the average activity throughout the year.

9. Derivative Contracts (continued)

	Derivative Financial Instruments				
	Notional/ Number of Contracts	Gross Derivative Assets	Notional/ Number of Contracts	Gross Derivative Liabilities	Income/(Loss) for the Year Ended December 31, 2011
Credit Risk					
Credit default swaps	$ 554,097,029	$ 41,933,330	$ 542,059,183	$ 35,460,038	$ 4,909,678
Total return swaps	$ 2,141,443	67,457	$ 3,358,109	681,787	(486,154)
Equity Risk					
Equity swaps	$ 3,879,600	262,767	$ 3,357,114	229,558	(2,336,638)
Exchange traded futures	5	1,069,354	1	6,576	(4,649,449)
Over-the-counter options	4	987,969	2	602,315	(108,918)
Interest Rate Risk					
Interest rate swaps	$ 40,628,746	2,007,930	$ 64,724,282	1,138,061	(1,171,549)
Foreign Exchange Risk					
Foreign currency options	30	5,160,997	16	3,185,588	(2,591,915)
Foreign currency forwards	$ 12,449,887	61,468	–	–	(172,897)
		$ 51,551,272		$ 41,303,923	$ (6,607,842)

The Partnership's credit derivatives include credit default swaps where the Partnership has purchased or sold/written credit protection on an underlying instrument. Credit default swaps provide protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. The Partnership enters into credit default swap contracts as part of its investment activities and to protect against adverse movements in credit performance relating to its investment activities. Typical credit events include failure to pay or restructuring of the obligations of the referenced entity, bankruptcy, dissolution or insolvency of the referenced entity.

9. Derivative Contracts (continued)

The following table sets forth certain information related to the Partnership's written credit derivatives as of December 31, 2011:

Credit Spread on Underlying (Basis Points)	Maximum Payout/Notional Amount (By Expiration) 0-5 Years	5-10 Years	10 Years or Greater	Total Written Credit Derivatives	Offsetting Purchased Credit Derivatives	Fair Value Written Credit Derivatives
Single Name:						
0-250	$ 209,182,160	$ 1,524,250	$ –	$ 210,706,410	$ 193,903,995	$ (1,061,184)
251-500	9,793,445	2,286,375	–	12,079,820	8,176,820	(69,875)
501-1000	159,584,193	365,820	–	159,950,013	101,986,118	(4,607,954)
Greater than 1,000	51,524,730	5,732,826	–	57,257,556	46,484,872	(15,531,887)
	$ 430,084,528	$ 9,909,271	–	$ 439,993,799	$ 350,551,805	$ (21,270,900)
Index/Tranche:						
0-250	$ 465,825	$ –	$ 18,914,100	$ 19,379,925	$ 16,429,257	$ (2,208,012)
251-500	8,196,843	–	1,741,200	9,938,043	9,938,043	(1,019,305)
501–1000	24,000,000	–	8,905,822	32,905,822	23,707,422	(4,905,628)
Greater than 1,000	–		1,746,266	1,746,266	1,746,266	(1,108,698)
	32,662,668		31,307,388	63,970,056	51,820,988	(9,241,643)
Total	$ 462,747,196	$ 9,909,271	$ 31,307,388	$ 503,963,855	$ 402,372,793	$ (30,512,543)

The maximum payouts for contracts are limited to the notional amounts of each derivative contract. As of December 31, 2011, the Partnership's written credit derivatives had total gross notional of approximately $504 million.

The fair value of the Partnership's written credit derivatives was approximately $(30.5) million as of December 31, 2011 and is included in derivative financial instruments on the consolidated statement of financial condition. The notional and fair value of these written credit derivatives, exclusive of those contracts sold under the participation agreements, as discussed in Note 7, was approximately $119 million and $(5.4) million, respectively, at December 31, 2011. All amounts included above are before consideration of hedging transactions that may mitigate the risk on such contracts.

Offsetting purchased credit derivatives, included above, represent the notional amount of purchased credit derivatives to the extent they hedge written credit derivatives with identical underlyings. The credit spreads on the underlying, together with the period of expiration, are viewed as indicators of payment/performance risk. The likelihood of payment or performance is generally greater as the credit spread on the underlying and period of expiration increase.

9. Derivative Contracts (continued)

In the normal course of trading activities, the Partnership trades and holds certain fair value derivative contracts, such as written options, which constitute guarantees. The maximum payout for written put options is limited to the number of contracts written and the related strike prices, and the maximum payout for written call options is contingent upon the market price of the underlying security at the date of a payout event. At December 31, 2011, the Partnership had a maximum payout amount of approximately $526,000 relating to written put option contracts, which had a fair market value of $(6,016) and expire in less than two months from the consolidated statement of financial condition date.

10. Guarantees and Indemnifications

The Partnership enters into contracts that contain a variety of indemnities. The Partnership's maximum exposure under these arrangements is unknown. However, the Partnership has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote. Therefore, the Partnership has not accrued any liability in connection with such indemnifications.

11. Financial Highlights

Total return:	
Total return before performance allocation	(4.66%)
Performance allocation	(0.04%)
Total return after performance allocation	(4.70%)
Ratio to average limited partners' capital:	
Expenses before performance allocation	3.39%
Performance allocation	0.10%
Expenses and performance allocation	3.49%
Net investment income before performance allocation:	2.68%
Performance allocation	(0.10)%
Net investment income after performance allocation	2.58%

11. Financial Highlights (continued)

Total return is calculated for all limited partners excluding special limited partners. The above ratios to average limited partners' capital are computed based upon the weighted-average limited partners' capital for the year ended December 31, 2011, and are calculated for the limited partners excluding special limited partners. The ratios and total return for an individual limited partner may vary from these ratios and total return based on the timing of capital contributions and withdrawals, new issue allocations, management fee and performance allocation arrangements.

12. Subsequent Events

From January 1, 2012 through April 24, 2012, the Partnership recorded contributions of approximately $3.4 million and recorded withdrawals of approximately $34.3 million. Management has evaluated the effect of subsequent events on the Partnership's consolidated financial statements through April 24, 2012 which is the date the consolidated financial statements were available to be issued. Additionally, the Partnership has received requests for future withdrawals beyond April 24, 2012 which approximate $19.9 million. The final amounts are subject to change and are based on information available at this time.